

Message Text

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FM SECSTATE WASHDC

TO AMEMBASSY BERN IMMEDIATE

C O N F I D E N T I A L STATE 217382

FOR THE AMBASSADOR

FOLLOWING REPEAT STATE 217382 ACTION ABU DHABI

ALGIERS BEIRUT DOHA JAKARTA KUWAIT LAGOS LIBREVILLE

QUITO TRIPOLI INFO CARACAS JIDDA TEHRAN OECD PARIS

BONN ROME PARIS LONDON EC BRUSSELS VIENNA TOKYO DUBLIN

NEW DELHI KINSHASA USUN NEW YORK STOCKHOLM COPENHAGEN

LUXEMBOURG THE HAGUE BRUSSELS OTTAWA MADRID ANKARA

WELLINGTON DATED 12 SEP 75

QUOTE

C O N F I D E N T I A L STATE 217382

BEIRUT PASS BAGHDAD IMMEDIATE

E.O. 11652: GDS

TAGS: ENRG

SUBJECT: OPEC OIL PRICE DECISION

FOR THE AMBASSADOR

1. OPEC MINISTERS WILL MEET IN VIENNA SEPTEMBER 24 TO
CONSIDER AN OIL PRICE INCREASE. WE BELIEVE THAT A PRICE
INCREASE IS UNJUSTIFIED. ALTHOUGH THE INCREASED COST OF
MANUFACTURED AND OTHER GOODS IS USUALLY CITED WITHIN OPEC
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AS JUSTIFICATION FOR INCREASED OIL PRICES, THE OIL PRICE
INCREASES BEGINNING IN 1973 HAVE SO EXCEEDED INCREASES IN
PRICES OF MANUFACTURES THAT THEIR PRICE RELATIONSHIPS ARE
DISPROPORTIONATELY CHANGED BY A SUBSTANTIAL MARGIN. AC-

CORDING TO OUR ANALYSIS, FROM A 1960 BASE PERIOD, PER BARREL REVENUE ON OPEC MARKER CRUDE (SAUDI ARABIAN LIGHT) ROSE OVER 1200 PERCENT TO MID-1975 COMPARED WITH AN INCREASE OF SLIGHTLY MORE THAN 100 PERCENT IN THE PRICE OF MANUFACTURED EXPORTS AS COMPUTED BY THE UN. FROM JANUARY 1, 1973 TO MID-1975, REVENUE ON MARKER CRUDE INCREASED 566 PERCENT AS AGAINST SLIGHTLY MORE THAN A 52 PERCENT INCREASE IN THE PRICE OF MANUFACTURED EXPORTS. THE FIRST HALF OF 1974 WAS ADMITTEDLY A PERIOD OF MASSIVE PRICE INCREASES THROUGHOUT THE WORLD ECONOMY. HOWEVER, SINCE THAT TIME THE PACE OF PRICE INCREASES IN MANUFACTURED GOODS HAS SLOWED SIGNIFICANTLY AND PRICES OF MANY AGRICULTURAL AND OTHER COMMODITIES

HAVE DROPPED. AS A RESULT, THE PURCHASING POWER OF OIL EXPORTS APPEARS TO HAVE BEEN ABOUT CONSTANT FROM MID-1974 TO MID-1975. HOWEVER, SUCH STATISTICAL COMPARISONS HAVE NOT SUCCEEDED IN SWAYING THE PRODUCERS IN THE PAST TWO YEARS. IT NOW APPEARS LIKELY THAT OPEC'S ACTUAL DECISION ON PRICES WILL LARGELY DEPEND ON THE PRODUCERS PERCEPTION OF THEIR OWN REQUIREMENTS AND OF WHAT THE MARKET WILL BEAR, I.E., THE DEGREE TO WHICH A PRICE INCREASE MIGHT DIMINISH DEMAND FOR OPEC OIL AND THE COMBINED EFFECT ON OPEC REVENUES.

2. WE ARE CONCERNED WITH THE ADVERSE ECONOMIC AND PSYCHOLOGICAL EFFECTS OF AN OPEC OIL PRICE INCREASE. THE INCIPIENT WORLD ECONOMIC RECOVERY WOULD BE HINDERED, INFLATION WOULD BE EXACERBATED AND THE COOPERATIVE ATMOSPHERE NEEDED FOR THE RESUMED PRODUCER/CONSUMER DIALOGUE WOULD BE JEOPARDIZED. WE WISH TO MAKE OUR CONCERNS CLEAR TO THE OPEC COUNTRIES. SECRETARY KISSINGER AGAIN PUBLICLY OPPOSED AN INCREASE IN HIS SEPTEMBER 1 ADDRESS TO THE UN-SPECIAL SESSION DELIVERED BY AMBASSADOR MOYNIHAN. SPECIAL APPROACHES ON THE PRICE ISSUE ARE BEING MADE TO SAUDI ARABIA, IRAN AND VENEZUELA. AMBASSADORS TO OTHER OPEC COUNTRIES ARE REQUESTED TO MAKE APPROPRIATE HIGH CONFIDENTIAL

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LEVEL APPROACH AND CONVEY THE FOLLOWING POINTS WITH SUCH ADDITIONAL DETAILS AS ARE DEEMED EFFECTIVE IN THE HOST COUNTRY SITUATION:

A. SINCE THE PRODUCER/CONSUMER PREPARATORY MEETING IN PARIS LAST APRIL, THE UNITED STATES HAS MADE A MAJOR EFFORT TO RE-ESTABLISH A BASIS FOR DIALOGUE AND GREATER COOPERATION BETWEEN THE DEVELOPING COUNTRIES AND THE INDUSTRIALIZED COUNTRIES. WE REVIEWED OUR OVERALL POLICY TOWARD THE DEVELOPING COUNTRIES. WE TOOK INTO ACCOUNT THE CONCERNS EXPRESSED BY THE DEVELOPING COUNTRY REPRESENTATIVES AT THE PREPCON. SECRETARY KISSINGER ARTICULATED OUR NEW APPROACH IN SPEECHES IN KANSAS CITY AND

PARIS IN MAY AND OUTLINED IN DETAIL BOTH OUR GENERAL APPROACH AND SPECIFIC PROPOSALS ON SEPTEMBER 1 IN HIS ADDRESS TO THE SEVENTH SPECIAL SESSION OF THE UNITED NATIONS GENERAL ASSEMBLY. THIS US COMMITMENT TO A CO-OPERATIVE AND INNOVATIVE APPROACH TO THE PROBLEMS OF GLOBAL DEVELOPMENT IS BASED ON OUR CONVICTION THAT ALL PARTIES TO THIS DIALOGUE MUST TAKE INTO ACCOUNT THE

IMPORTANT INTERESTS AND CONCERNS OF OTHERS. IN THIS REGARD, WE BELIEVE THAT THE GOVERNMENTS OF OPEC HAVE A RESPONSIBILITY TO TAKE ACCOUNT OF THE EFFECT WHICH ANY FURTHER INCREASE IN THE PRICE OF OIL WILL HAVE IN THE WORLD ECONOMY AND PROSPECTS FOR SUCCESS IN THE CURRENT

EFFORT TO BUILD A NEW APPROACH TO THE PROBLEMS OF ECONOMIC DEVELOPMENT AND COOPERATION.

B. IN THE CASE OF THE US. WE ARE CONCERNED ABOUT OUR ABILITY TO MAINTAIN PUBLIC SUPPORT FOR A FORTHCOMING AND COOPERATIVE APPROACH TO THE PROBLEMS OF INTERNATIONAL ECONOMIC DEVELOPMENT AND THE PRODUCER/CONSUMER DIALOGUE SHOULD THE MEMBER COUNTRIES OF OPEC INCREASE THE PRICE OF OIL AGAIN. AMERICANS CAN SEE NO JUSTIFICATION FOR A FURTHER INCREASE WHEN THE PURCHASING POWER OF OIL HAS ALREADY RISEN SO DISPROPORTIONATELY AS A RESULT OF PAST INCREASES. OUR COMMITMENT TO A FORTHCOMING AND COOPERATIVE APPROACH TO GLOBAL ECONOMIC PROBLEMS WOULD OF COURSE REMAIN; BUT IN A PRACTICAL SENSE OUR ABILITY TO CONFIDENTIAL

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EXPLORE SPECIFIC NEW APPROACHES MIGHT BE JEOPARDIZED.

C. RECESSION IN THE INDUSTRIALIZED COUNTRIES IS ADVERSELY AFFECTING THE GLOBAL ECONOMY IN 1975, INCLUDING THE LEVEL OF EARNINGS OF THE OIL PRODUCING NATIONS AS A GROUP. A FURTHER OPEC PRICE INCREASE WOULD REDUCE THE RESOURCES AND WORSEN THE PAYMENTS BALANCE OF ALL OIL IMPORTING COUNTRIES -- BOTH DEVELOPED AND DEVELOPING -- JUST AS PROGRESS IN THE FIGHT AGAINST RECESSION AND INFLATION HAS BECOME APPARENT. A PRICE INCREASE WOULD AT THE VERY LEAST REDUCE THE PROGRESS TOWARD RECOVERY IN THE UNITED STATES AND IT COULD PLUNGE SOME COUNTRIES INTO EXTREMELY SERIOUS DIFFICULTIES.

D. WE TRUST THAT THE MEMBER COUNTRIES OF OPEC WILL GIVE PROPER RECOGNITION TO OUR CONCERNS AND TO THE POSSIBLE CONSEQUENCES OF AN OIL PRICE INCREASE -- NOT LEAST OF WHICH IS HINDRANCE OF PROGRESS TOWARD A MORE RATIONAL AND PROSPERING GLOBAL ECONOMIC STRUCTURE. KISSINGER UNQUOTE ROBINSON

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